

THE SIXTH SCHEDULE

FINANCIAL ARRANGEMENTS & ACCOUNTING PROTOCOL

between

Stevenage Borough Council and Stevenage Homes Limited (SHL)

Preamble

Stevenage Homes Ltd. is a wholly owned local authority company of Stevenage Borough Council. The SHL Board will manage its financial affairs with due regard to proper financial management and the requirements of company law.

This protocol sets out the arrangements through which SHL and SBC will co-operate, in line with the principal of mutual advantage, for the management of the Housing Revenue Account, and will jointly and separately ensure the proper financial administration respectively of the Housing Revenue Account and of SHL's corporate accounts. This schedule also sets out the arrangements for the calculation of the Management Fee payable by SBC to SHL for the services undertaken by SHL, and the transfer of monies between SBC and SHL.

The SHL Board will seek and give due regard to the advice of the Council's Chief Financial (Section 151) Officer, who has statutory responsibility for the management of the Council's Housing Revenue Account.

The ultimate responsibility for the Council's Housing Revenue Account remains with the Council but the Council will delegate the management of the HRA to SHL. SHL will manage the HRA and HRA Housing Services in line with the overall Management Agreement, the Delivery Plan and the Financial Arrangements detailed in this Schedule. These Agreements provide for the Council to approve SHL's medium term plans as detailed within the HRA Business Plan and short term financial plans as reflected in the annual approved budgets and management fee. Performance against these plans will be reported to and reviewed by the Council as part of the agreed monitoring arrangements.

There are three distinct areas within the HRA for the purpose of this Protocol:

- The Management Fee for duties undertaken by SHL ("SHL's Own Budgets" – "Delegated Budgets");
- Council budgets for which management is delegated to the SHL but which remain with the Council's HRA Account ("Managed Budgets") including HRA Capital Budgets;
- The Council's residual HRA budgets ("Retained/managed Budgets") for functions within the HRA that by their nature SHL can exert little control over, but which SHL will be expected to take into consideration in its overall management and Business Planning for the HRA.

CONTENTS**Page No**

	Preamble	1
	Contents	2 - 3
	Summary General Requirements for SHL Financial Procedures	4
1	Budget Status	5
2	Contracts Novation and Assignment	6
3	Notification of Financial	6
4	Financial Year	6
5	Service Level Agreements	6
6	Taxation	6
7	Rent Restructuring and Service Charges	7
8	Receipt of Council Income	7
9	Right to Buy (RTB) Receipts	7
10	Financial Procedure Rules including Financial Regulations, Contract Standing Orders & Scheme of Delegation	7
11	Accounting Standards Compliance	8
12	Management of Capital	8
13	HRA Business Plan	9
14	Assets	9
15	External Audit	10
16	Internal Audit	10
17	Banking Arrangements	10
18	Insurance	10
19	Risk Management	11
20	Car Loans	11
21	Budget Setting	11
22	Calculation and Payment of the Management Fee	12
23	Budgetary Control – General	13
24	Budgetary Control – Management Accounting for SHL Budgets	14

25	Budgetary Control – Management Accounting for Managed Budgets – Revenue	14
26	Budgetary Control – Management Accounting for Managed Budgets - Capital	14
27	Budgetary Control – Management Accounting for Retained/Managed Budgets	15
28	Financial Reporting	15
29	Transactions between the SBC and SHL	15
30	Financial Systems	16
31	Payroll Services for SHL Staff	17
32	Monthly Reconciliations	17
33	Closure of Accounts	18
34	HRA Balances	18
35	Treatment of SHL Surpluses	18
36	Advances to the ALMO	18
37	Claims and Returns – General	19
38	Housing Revenue Account Subsidy Claim	19
39	Value for Money & Efficiency – Annual Efficiency Statements	19
40	Employment Tribunals	19
41	Dispute Resolution	19
	Annex 1 – HRA Budget Schedule – Budget and Control Account Responsibility	
	Annex 2 – Financial Planning Processes & Timetable	

Summary General Requirements for SHL Financial Procedures

1. SHL shall make arrangements for the proper administration of its financial affairs.
2. SHL shall make proper arrangements for securing economy, efficiency and effectiveness in the use of resources.
3. SHL will initially adopt the Council's Contract Standing Orders and thereafter shall formulate contract standing orders with respect to making contracts for itself for the supply of goods and materials or for the execution of works. SHL's contract standing orders shall be approved by the Council's Chief Finance (Section 151) Officer.
4. SHL will initially adopt the Council's Financial Regulations and thereafter shall make its own Financial Regulations with respect to its own Company activities and these regulations are to be approved by the Council's Chief Finance (Section 151) Officer.
5. SHL shall institute an adequate system of internal controls, including segregation of duties and proper authorisation levels and take reasonable steps to limit the possibility of fraud and corruption.
6. SHL shall maintain adequate and effective internal audit arrangements.
7. **SHL shall devise a Treasury Management Policy Statement before it independently invests any of surplus funds. The policy shall be approved by the Council's Chief Finance (Section 151) Officer.**

1. Budgets Status (Delegated; Managed or Retained/managed)

1.1 A schedule of all HRA Budgets (“HRA Budget Schedule”) will be maintained between SBC & SHL clarifying at all times the respective status of all budgets between, Delegated, Managed & Retained/managed, see Annex 1. The status of these budgets may be added to, amended, or reduced by agreement between the Council and SHL in accordance with the terms of the Management Agreement. The Schedule will specify where responsibility for each individual budget lies between SHL and SBC.

1.2 Delegated budgets payment

1.2.1 Budgets which will be delegated into SHL’s own accounts, include but are not limited to:

- Salaries & Wages Budgets to pay for SHL Staff
- Revenue Repairs Budgets
- Housing Maintenance DLU Trading Account
- Housing Stores Account
- General running expenses, where appropriate, as specified in the “HRA Budget Schedule”

1.2.2 A fee “the Management Fee” will be paid by the Council to SHL for the delegated services budgets where SHL have entered into its own contracts for the provision of these services. SHL will ensure that its staff comply with all agreed SHL relevant Financial Regulations and Contract Standing Orders in the procurement of and payment for all goods and services necessary for service delivery from budgets delegated into SHL’s own accounts.

1.2.3 SHL will maintain its own accounts as a single company using the recorded information in its suite of accounts in the Council’s IBs Integra Financial Ledger System. SHL will prepare Statutory Accounts as required by the Companies Act and in a format in conformance with the Act. SHL’s Director of Resources will ensure compliance with a high standard of professional practice and the Companies Act.

1.3 Managed budgets payment

1.3.1 In delegating the management of the overall HRA to SHL there will be a number of functions which will be managed and monitored by SHL but accounted for directly within SBC’s HRA, including but not limited to:

- Rental Income from dwellings
 - Tenants’ & Leaseholders’ Service Charge Income
 - Energy & utility costs relating to the Housing Stock
 - Landlord costs, HRA assets building insurance
- And HRA Capital Expenditure in the Capital Accounts

1.3.2 Where contracts for services remain with the Council, these costs will continue to be accounted for within the Council’s HRA accounts. All transactions in respect of Managed Budgets will be against SBC’s suite of codes on the IBs Integra Financial Ledger System, and will be identified as SBC’s transactions for taxation purposes. Payments will be made directly from these budgets, generally by way

of invoice. SHL will manage contracts to undertake the managed budget works (including the capital programme) as appropriate, acting on behalf of SBC, and will be responsible for authorising payments against the managed.

- 1.3.3 SHL will ensure that its staff comply with all SBC's relevant Financial Regulations and Contract Standing Orders in the procurement of and payment for all goods and services necessary for service delivery from Managed Budgets.

1.4 Retained/managed Budgets

- 1.4.1 Residual HRA budgets ("Retained/managed Budgets") are in respect functions within the HRA that by their nature SHL can exert little control over, but which SHL will be expected to take into consideration in its overall delegated management and Business Planning for the HRA. These include, but are not limited to:

- HRA Housing Subsidy
- Resource Accounting Entries in the HRA

2 Contracts Novation and Assignment

- 2.1 Schedule 1 of the management agreement will deal with this matter.

3 Notification of Financial Irregularity

- 3.1 Further to paragraph 32 of the Management Agreement, SHL will notify the Council's Chief Financial (Section 151) Officers or Internal Audit Partnership Manager, as soon as reasonably practical, of any event of financial irregularity arising in respect of either SHL's own accounts, or its delegated management of the HRA or HRA Capital Accounts.

4 Financial Year

- 4.1 SHL will bring its financial year in line with Local Authority accounting i.e. the financial year shall be from 1st April to 31st March.

5 Service Level Agreements

- 5.1 This protocol makes various references to SLAs for the provision of Support Services from SBC to SHL. In line with Government guidance, all SLAs will be reviewed within the first year of the SHL operation. These reviews will be in accordance with plans and timetables agreed between the SHL & SBC.

6 Taxation

- 6.1 SHL will be separately registered for VAT, Corporation Tax, PAYE, and Construction Industry Tax. SHL will be responsible for its own financial affairs and for its own tax arrangements and appropriate payment arrangements, including the submission of appropriate periodic returns to Revenue & Customs and other bodies.
- 6.2 These functions may be performed, in whole or in part, by the Council on behalf of SHL under SLAs. SHL will be responsible for ensuring the accuracy of any process performed by the Council in these respects.

- 6.3 SHL will be responsible for accounting to Revenue & Customs for any Corporation Tax that it becomes liable for in respect of its own Company Accounts.

7 Rent Restructuring and Service Charges

- 7.1 SHL will continue to implement and monitor formula rents and service charges arising from Rent Restructuring in consultation with the Council, including:

- Agreeing together the assumptions underlying, and functionality of, the annual rent budget model
- Validation of key data issued by the Government and local valuations
- Monitoring progress on the 10-year implementation plan within Government damping and limitation rules.
- Implementing any changes to Rent Restructuring formulae or guidance as notified by the Government.

SHL will, annually in line with Government guidance and the Council's practices and timetables: -

- Review, prepare, propose and implement "Rent Restructuring" rent increases
- Review, prepare, propose and implement tenants' service charges
- Review, prepare, propose and implement other Housing income increases

The results of this consultation and proposals will be reported formally to the Council as part of the annual budget & rent setting approval process, as detailed in Annex 2.

8 Receipt of Council Income

- 8.1 In accordance with clause 52 of the Management Agreement, SHL will ensure that all income due to and received on behalf of the Council is deposited in the Council's bank account in accordance with the Council's Financial Regulations.
- 8.2 SHL will prepare and submit such periodic reconciliations of income received and banked as are required by the Council's Chief Financial (Section 151) Officer.

9 Right to Buy (RTB) Receipts

- 9.1 Receipts from Right-to-Buy (and other property sales) are the income of the Council and will be banked in accordance with the Council's Financial Regulations.
- 9.2 Responsibilities for the various parts of the overall RTB process will be undertaken by either SBC or SHL. These responsibilities will be detailed in the separate "RTB process map" document to be prepared in accordance with the delivery plan.

10 Financial Procedure Rules including Financial Regulations, Contract Standing Orders & Scheme of Delegation

- 10.1 SHL will initially adopt the Council's Financial Regulations and Contract Standing Orders, and may subsequently review and amend, its own Financial Regulations, Contract Standing Orders, scheme of delegated authority, authorised signatories,

and associated procedures, in respect of contractual commitments made in SHL's name, to be recorded in SHL's own company accounts. In doing so, SHL will at all times seek and take due regard of the advice of the Council's Chief Financial (Section 151) Officer, and will agree these procedures with him/her. SHL's contract standing orders shall include provision for securing competition for such contracts and for regulating the manner in which tenders are invited. SHL will abide by all EU procurement regulations.

- 10.2 SHL will also have a scheme of delegation, approved by the Council's Chief Financial (Section 151) Officer, that protects the Council's interests in respect of contractual commitments made on behalf of the Council and to be recorded in the Council's accounts. SHL will follow the requirements of the Council's Financial Regulations and Contract Standing Orders at all times in handling SBC managed budgets.
- 10.3 SHL will fully co-operate with SBC to demonstrate appropriate financial controls through audit and analysis of financial performance indicators, as set out in the Audit SLA, the monitoring arrangements and elsewhere.
- 10.4 SHL will ensure that all appropriate accounting standards, regulations and statutory requirements are observed.
- 10.5 SHL will agree a SHL Finance staffing structure with the Council's Chief Financial (Section 151) Officer that provides adequate financial and accountancy skills to effectively manage the business in a professional manner.

11 Accounting Standards Compliance

- 11.1 SHL's management accounts will be maintained such that it is able to detail the management fee charged to SBC adequately to allow SBC to conform with statutory accounting regulations and guidelines, including CIPFA's Best Value Code of Accounting Practice and Resource Accounting format for the HRA or such regulations operative at the time.
- 11.2 SHL will ensure that the appropriate and regular reconciliation of financial and operational systems and such other reconciliations (holding and suspense accounts) in accordance with SHL's and the Council's financial governance arrangements.
- 11.3 SHL will comply with the Council's Financial Regulations and Contract Standing Orders when acting on the Council's behalf.

12 Management of Capital

- 12.1 The Council will set out its overall capital programme priorities within a reasonable timeframe to allow the SHL to suggest and programme such works to meet the agreed capital budgeting timetable.
- 12.2 Nominated officers for the SHL and SBC will liaise annually to prepare the capital programme in accordance with an agreed timetable.
- 12.3 The Council will arrange to make the ALMO allowance (supported borrowing), Major Repairs Allowance and other HRA ring-fenced capital resources available to fund the proposed approved HRA Capital Programme.
- 12.4 SHL will, in accordance with the Council's financial planning timetables, submit an annual profile of proposed capital expenditure in line with the ALMO Bid. SHL

will prepare a cash flow forecast of capital expenditure to 2010 and for the forthcoming 2 years will split the forecast into monthly profiles. This will be submitted for approval of the nominated officers within SBC by the end of November preceding the start of each financial year

- 12.5 SHL will provide monthly capital monitoring reports containing period totals for actuals and variances, year to date actual and variances, and the full year forecast of spend as part of the monitoring arrangements.

13 HRA Business Plan

- 13.1 As part of the delegation under the Management Agreement, SHL will undertake the production of the Housing Revenue Account Business Plan for approval by SBC in March of each year.
- 13.2 SHL will keep the HRA Business Plan under ongoing review and report updates to the Plan to SBC on a quarterly basis as part of the monitoring arrangements.
- 13.3 SHL should ensure that at all times the HRA Business Plan is in balance over the medium term (a 5 year forward projection) whilst maintaining a minimum balance determined by the Council's Chief Finance (Section 151) Officer. SHL should report to SBC immediately if at any stage it is unable to formulate plans to maintain the account in such balance.

14 Assets

- 14.1 In accordance with clause 37 of the Management Agreement, all relevant items of fixtures/fittings and computer hardware acquired by SBC prior to the 1st October 2006 will be made available to SHL as provided in respective SLA services.
- 14.2 In accordance with clause 37 of the Management Agreement, all relevant items of vehicles & plant acquired by SBC prior to the 1st October 2006 will be made available to SHL. Relevant items of vehicles & plant acquired by SBC prior to the 1st October 2006 under leasing agreements will be made available to SHL by the assignment of the lease where possible.
- 14.3 Access to future SBC capital funding to provide new & replacement assets including through the respective SLA's will be considered as part of the Council's annual financial planning processes.
- 14.4 Any future purchases of assets by SHL individually over £500 may score as an asset within the accounts of SHL. This will have implications for both depreciation within the SHL's accounts and Corporation Tax/Capital Allowances. In accordance with clause 21 of the Management Agreement, future acquisition of assets by SHL should therefore, in line with the principal of mutual advantage, be undertaken in consultation with SBC and considered as part of the annual financial planning processes as referred to in 14.3 above.
- 14.5 SHL will consult with SBC, as part of the annual financial planning processes as referred to in 14.3 above, before entering into any Lease Agreement for the acquisition of assets. Acquisition of assets by leasing may avoid taxation and depreciation issues for SHL and where it is agreed that this is the most appropriate arrangement the Council will use its best endeavours to support such lease arrangements through its SLA's.

15 External Audit

- 15.1 SHL will appoint its own external auditors. In doing so, SHL will at all times seek and take due regard of the advice of the Council's Chief Financial (Section 151) Officer. For the avoidance of potential conflicts of interest, the organisation appointed as external auditor will not be appointed as a supplier of financial services in any other capacity than auditor.
- 15.2 Any issues raised in management letters by the external auditor of the SHL, or by the external auditor of the Council in relation to the HRA, will become part of an "Audit Action Plan" to be agreed between the auditor(s), the SHL, and the Council.
- 15.3 The Board of SHL will directly or through a sub-committee of the Board receive external audit reports, together with comments from SHL Officers and the Council's Chief Financial (Section 151) Officer and proposed actions in response to the recommendations of the auditors.

16 Internal Audit

- 16.1 SHL will use the Council's Internal Audit Partnership Service through a Service Level Agreement, the programme of work to be agreed jointly by SHL Board and the Council's Chief Financial Officer (Section 151) Officer. This will be reviewed as with all SLA's with the Council.
- 16.2 The SHL Board will directly or through a sub-committee of the Board receive internal audit reports, together with comments from SHL Officers and the Council's Chief Financial (Section 151) Officer and proposed actions in response to the recommendations from the Internal Audit Partnership Manager.

17 Banking Arrangements

- 17.1 SBC will, as appropriate, operate a bank account within the Council's suite of bank accounts for the sole use of SHL. Balances attributable to SHL will, as appropriate, be held in this designated bank account. Such an Account will be grouped with SBC for interest purposes in order to facilitate the operation of Treasury Management Services to mutual advantages under the Accountancy SLA. The Board of SHL shall provide to the Council the names, descriptions, and signatures of those authorised to approve transactions on this account.
- 17.2 SHL will prepare a separate cash flow statement by the end of February prior to the commencement of each financial year setting out the forecast cash flows for costs to be met by SHL in respect of its own expenditure and the Managed budgets.

18 Insurance

- 18.1 SHL will be named as a party along with the Council in Insurance policies covering the following risks;
- Public liability
 - Employers liability
 - Personal accident
 - Professional indemnity
 - Motor Vehicles

- Business Interruption
- Contractors All risks
- Death in Service

- 18.2 SHL should determine cover in respect of Directors of the Board indemnity as it deems to be appropriate.
- 18.3 The arrangement of these insurances will normally be procured through the Council's Insurance Section under an SLA. The Council and SHL, in line with the principal of mutual advantage, will work together in defining the risks to be covered by insurance and will assist in procuring the necessary insurance, as required. SHL and the Council will jointly undertake a risk assessment to identify the incidence of risk and develop procedures to reduce it.
- 18.4 The Council will arrange material damage and liability insurance relating to the Council's housing stock and works carried out on the stock.
- 18.5 SHL should satisfy itself that these policies provide adequate cover for SHL against the respective risks.

19 Risk Management

- 19.1 SHL will adopt a Risk Management strategy, together with such risk registers and other supporting activities as appropriate, covering the conduct of its own affairs and of the HRA Managed Budgets. SHL will cooperate fully with the Council in the preparation and operation of Risk Management strategies in respect of the Housing Revenue Account as a whole. In doing so, the SHL will at all times seek and take due regard of the advice of the Council's Chief Financial (Section 151) Officer.
- 19.2 SBC will provide support to SHL's Risk Management activities through the Corporate Administration SLA.

20 Car Loans

- 20.1 The monies due on loans outstanding at the commencement of SHL's operations will continue to be deducted direct from the employee's salaries by the payroll service operated on behalf of SHL, and the deductions paid to the Council. SBC Corporate Services will in line with their SLA provide SHL with an annual statement of the loans outstanding and the repayments made.
- 20.2 Subject to the agreement between SBC and SHL on an ongoing basis, the Council will continue to offer new Car Loans to SHL staff on the same conditions as those offered to SBC staff and will administer the scheme as detailed in 20.1 above.

21 Budget Setting

- 21.1 SBC has the statutory responsibility for the Housing Revenue Account. The Council will delegate the overall management of the HRA to SHL in accordance with Section 1 Budget Status above. SHL will be responsible for the production of the HRA budget in accordance with the Council's budget timetable budget. Council Officers will facilitate the HRA budget process in respect Retained/managed budgets and other areas that are reliant on the provision of SBC information. The overall Budget Process will be approached in line with the principle of partnership working and mutual advantage.

- 21.2 SHL will prepare and submit, in accordance with the Council's financial planning timetables (See Annex 2), HRA budget papers as required by the Council's Chief Financial (Section 151) Officer. These will have due regard to and co-operate with the Council's budget setting and review process, taking into account the following steps: -
- Medium Term Financial Strategies (MTFS)
 - Annual Efficiency Statements
 - HRA Business Plans
 - Capital Programmes & Budgets
 - Forward Planning Process and Savings Exercises
 - Detailed Budget Production
- 21.3 These will, where appropriate, identify separately the SHL's Management Fee budget, Managed Budgets, and Retained Budgets.
- 21.4 The HRA Budget will be based upon current costs adjusted to take account of inflation and changes in the number of tenanted and leasehold stock under management, and growth and savings (including efficiency savings) identified through the Forward Plan & Savings exercises of both SHL and the Council. They will be adjusted, by negotiation, for the following, if applicable: -
- Costs outside the control of the SHL
 - Variations in services being required by SBC
 - The HRA Subsidy Determinations
 - The implementation of best value review recommendations
 - Service improvement plans
 - Variations in services being required by SBC
 - Due regard to ensuring a balanced HRA account in line with the HRA Business Plan
 - HRA expenditure in the current year
 - Surpluses or deficits generated by SHL
 - Changes in SLA recharges/pension contributions etc.
 - Any change in legislation or other external influences on the HRA
- 21.5 SHL will be responsible for budget preparation in respect of its own Company Accounts. SHL will prepare its operational budgets within the control totals for the Management Fee and Delegated Budgets identified in the Council's budget setting process. This process will be managed by SHL's Director of Resources, and approved by the SHL's Board. SHL will be required to propose the annual Management Fee to be charged to SBC in accordance with the Council's budget timetable.

22 Calculation and Payment of the Management Fee

- 22.1 In alignment with the Council's annual financial planning cycle, SHL will prepare Forward Plan & Savings Proposals setting out planned growth and savings in the Management Fee and Managed Budgets. These proposals will feed into the formal setting of the HRA Budget and approval of the Management Fee. These proposals should form part of SHL processes for the review and updating of the HRA Business Plan. This process will be managed by SHL's Director of Resources and approved by SHL's Board. An outline of the Council's annual financial planning processes and timetable are detailed in Annex 2.

- 22.2 In determining the management fee the overriding requirement will be that the statutory requirement to set budgets that represent a balanced HRA are adhered to. A balanced HRA will be one where the HRA reserves are within limits reasonably determined by the Council's Chief Financial (Section 151) Officer as stated in the HRA Budget.
- 22.3 The Management Fee will be set as a fixed amount at the start of the Agreement. This will be the base amount for future years. This fixed amount will be calculated for the period from 1st October 2006 to 31st March 2007 as the sum required for SHL to meet its obligations in respect of Budgets delegated into SHL own company accounts.
- 22.4 The fee will be subject to annual review and negotiations between the Council and SHL. Such negotiations will take account of the factors detailed in paragraph 21.4 in the Budget Setting Section together with:
- Surpluses or deficits generated by SHL
 - Costs outside the control of the SHL
- 22.5 The Management Fee may be varied during the year, subject to good faith negotiations between the Council and SHL, to take account of unforeseen extra costs and variations not taken into account within the annual budgets and outside the control of SHL or variation in services being required by SBC. Such changes will be documented via a formal variation order. The details of any variations will be approved by the SHL Board and the Council's Executive. All changes agreed in the Management Fee will be incorporated into the HRA Budget and ongoing reviews of the HRA Business Plan.
- 22.6 The Management Fee will be paid to SHL in equal monthly instalments. The first instalment will be paid on 1st October 2006 and thereafter instalments will be paid on the 15th of each subsequent month.

23 Budgetary Control - General

- 23.1 SHL will be responsible for controlling income and expenditure within SHL's own company accounts, HRA Managed budgets and, with due regard to its delegated responsibility for the overall HRA, and monitoring the impact on the HRA of variations in Retained/managed budgets. If SHL anticipates an overspending against SHL budgets, Managed budgets or the overall HRA it should consider options to reduce costs or increase income to contain net expenditure within the overall budget. If these courses of action are not feasible, SHL will report to the Council proposing the additional budget allocation required for the year with suggestions for re-aligning the income and expenditure within the HRA Business Plan to retain the forecast in balance over the medium term.
- 23.2 SHL will be responsible for the regular monitoring on at least a monthly basis of its own & all HRA budgets and the provision of agreed reports to the SBC contract-monitoring officer or Chief Financial (Section 151) Officer. Reports will detail expenditure and commitments to date against profiled budgets and estimated annual outturn. SHL staff will be required to meet regularly and at least monthly with the SBC monitoring officer, Section 151 Officer and / or CE to explain the financial performance as part of overall monitoring of SHL's performance.

23.3 SHL will have operational freedom to vire budgets within its own accounts in line with its agreed Financial Regulations. SHL will have operational freedom to vire managed budgets within the HRA in line SBC's Financial Regulations. However, SHL will not transfer budgets between the Management Fee and the Managed Budgets without the agreement of Council by way of a formal variation to the Management Fee.

24 Budgetary Control - Management Accounting for SHL Budgets

24.1 SHL will manage, monitor and control SHL budgets funded from the management fee for the effective and efficient delivery of its services.

24.2 SHL will report periodically to the Board or a designated sub-committee the actual spend to date against managed budgets, projections to the year end, and such other monitoring information as may be required by SHL. These reports will be made available to the Council.

24.3 Any anticipated surpluses or deficits on the Management Fee will be reported to the Board for the Board to review the use of surpluses or determine potential areas of savings to be made to ensure a deficit does not occur. These reports will be made available to the Council.

25 Budgetary Control - Management Accounting for Managed Budgets – Revenue

25.1 SHL will manage, monitor, and control Managed Budgets funded from the HRA for the effective and efficient delivery of HRA services.

25.2 SHL will report periodically to the Board or a designated sub-committee the actual spend to date against budget, projections to the year end, and such other monitoring information as may be required, for all Managed Budgets. These reports will be made available to the Council.

25.3 Any actual or projected surpluses or deficits on the Managed Budgets will be reported to the Board for the Board to consider making proposals to the Council to review the use of surpluses or determine potential areas of savings to be made to ensure a deficit does not occur. These reports will be made available to the Council.

25.4 The Council Chief Financial (Section 151) Officer will be notified, as soon as reasonably practical, of any specific financial issue or problem which becomes apparent during the year which is not otherwise reported on.

26 Budgetary Control - Management Accounting for Managed Budgets - Capital

26.1 SHL will manage, monitor and control HRA Capital Expenditure Budgets for the effective and efficient delivery of capital investment.

26.2 SHL will report periodically to the Board or a designated sub-committee the actual spend to date against budget, projections to the year end, and such other monitoring information as may be required, for all HRA Capital expenditure. These reports will be made available to the Council.

26.3 Any actual or projected surpluses or deficits on the Capital Programme will be reported to the Board for the Board to consider making proposals to the Council

to review the use of surpluses or determine potential areas of savings to be made to ensure a deficit does not occur. These reports will be made available to the Council.

- 26.4 The Council Chief Financial (Section 151) Officer will be notified, as soon as reasonably practical, of any specific financial issue or problem in respect of capital budgets which becomes apparent during the year which is not otherwise reported on.

27 Budgetary Control - Management Accounting for Retained/managed Budgets

- 27.1 SHL will monitor the Retained Budgets funded from the HRA to ensure the effective and efficient delivery of HRA services in respect of the overall HRA.
- 27.2 SBC Officers will provide SHL a monthly monitoring report detailing any actual or projected over or underspends against Retained/managed Budgets that SBC Officers are required to account for as detailed in Annex 1.
- 27.3 SHL will report periodically to the Board or a designated sub-committee the actual spend to date against budget, projections to the year end, and such other monitoring information as may be required, for all Retained/managed Budgets. These reports will be made available to the SBC.

28 Financial Reporting

- 28.1 SHL will produce Limited Company Annual Accounts and Returns in accordance with the relevant company laws and Statements of Accounting Practices. It will also produce a statement in the statutory HRA format to be amalgamated with SBC's statutory HRA Accounts. These are to be prepared in accordance with timetable agreed with SBC's Chief Finance (Section 151) Officer reflecting the statutory deadline for producing the Council's Accounts.
- 28.2 SHL will be required to supply all necessary information to SBC to allow SBC to comply with Group Accounting regulations to required timescales.
- 28.3 SHL will provide a copy of its Audited Company Accounts to SBC within 6 months of the Financial Year End.

29 Transactions between the SBC and SHL

- 29.1 Payments from SBC to SHL in respect of the SHL Management Fee will be accounted for as detailed in paragraph 22.6.
- 29.2 Payments from SHL to SBC in respect of SLA charges will generally be accounted in accordance with the same schedule as the Management Fee referred to in paragraph 29.1.
- 29.3 Payments from SBC to SHL in respect of works undertaken by SHL Building Maintenance DLU for SBC and issues from the DLU Store to SBC will be processed into the SBC ledger by the respective systems, as appropriate, and summarised at each month end with the issue of a summary invoice to correctly account for VAT.
- 29.4 Disbursements undertaken by SBC in respect of SHL's transactions will be reflected in the respective accounts of each party as they occur.

29.5 All transaction between SBC and SHL will be treated gross in order to ensure the correct accounting for VAT by both parties. There shall be no “netting-off” of transactions between SBC and SHL. All transaction will be reflected financially in each party’s respective accounts. There shall be no “barter” arrangements between SBC and SHL.

29.6 These arrangements can be varied by mutual agreement between the SBC and SHL, provided that any change does not compromise the VAT obligations of either party.

30 Financial Systems

30.1 SHL will use a ring-fenced section of the Council’s financial system (IBs Integra) to separately record all financial transactions relating to the SHL as a corporate entity, using a separate chart of accounts.

30.2 In order to ensure adequate separation from the accounts of the Council, the transactions of SHL as a corporate entity will be held as a separate company within Integra in a clearly defined discrete area of the system. These separate ledgers will have been created to enable independent financial management to be carried out together with the production of statutory accounts. Separate Companies will be set up in respect of SHL within the integrated Creditor and Sales modules. The integrated Stores module will be operated within SHL’s company entity.

30.3 The transactions in respect of the SHL corporate entity will be recorded in the SHL chart of accounts. However in the interests co-operation, mutual advantage and minimising diseconomies most payments and receipts will be transacted via SBC’s Bank Account. The transactions, together with specific transactions between SBC & SHL (Management Fee, SLA recharges, DLU works & Stores issues) will be closely managed through “inter company – indebtedness” accounts in the books of both SBC & SHL, respectively.

30.4 Virements between SHL budgets will require authorisation as set out in SHL’s Financial Regulation.

30.5 Payment of the management fee to SHL will be recorded in the Council’s Housing Revenue Account on Integra and credited to SHL.

30.6 Managed Budgets (both capital and revenue) will be operated by SHL but income and expenditure will be recorded in the Council’s HRA accounts in the Integra ledgers system.

30.7 SHL will have control over its own chart of accounts, determining cost/profit centres and a hierarchy of accounts as it sees fit. SHL will liaise with SBC in accordance with the Accountancy SLA to maintain the SHL chart of accounts.

30.8 Any new HRA Revenue or Capital codes required by SHL within the HRA will be requested by SHL and set up the Integra system in liaison with SBC in accordance with the Accountancy SLA.

30.9 Integra will have adequate security in place to ensure nobody (other than those properly authorised) can transfer budgets or actual spend between the SHL accounts and the Council’s accounts; can transfer budget or actual spend within SHL or SBC accounts or access the respective accounts of SHL or SBC to view and / or produce reports. The Council’s Chief Financial (Section 151) Officer and the SHL’s Directors of Resources will jointly agree and authorise those members

of Council and/or SHL staff permitted access in respect of the respective ledgers.

- 30.10 SHL will send all relevant invoices for payment to SBC Exchequer payments Section in accordance with the Creditors SLA. SHL invoices will be appropriately authorised in line with SHL Financial Regulations, Scheme of Delegation and Authorised Signatory list. Invoices for payment in respect of SHL own company accounts will be processed separately to SBC invoices into Company 8 on the Integra Creditors system. They will be coded to SHL cost centre codes and any VAT will be separately coded to the SHL VAT control account, to enable the VAT to be accounted for by SHL correctly. Payment will generally be made via the BACS system with SHL committing to seek to eliminate payment by cheque to its creditors.
- 30.11 Invoices for payment in respect of HRA Managed Budgets will be processed as SBC invoices into Company 1 on the Integra Creditors system. SBC HRA invoices will be appropriately authorised by relevant SHL Officers in line with SBC Financial Regulations, Scheme of Delegation and Authorised Signatory list. They will be coded to SBC HRA cost centre codes and any VAT will be coded to the SBC VAT control account.
- 30.12 Where necessary SBC will pay any accounts where the Client Company has refused to trade with SHL due to its initial credit rating. The Council will then charge these amounts to SHL, subject to issuance of VAT invoices, where applicable.
- 30.13 These arrangements may be revised during the life of the Management Agreement at the common consent of the Council and SHL, in line with the principal of co-operation, partnership working and mutual benefit.

31 Payroll Services for SHL staff

- 31.1 SBC will be SHL's payroll service provider in accordance with the appropriate SLA. Payroll transactions will be against SHL's suite of codes on Integra system, and will be identified as SHL transactions for PAYE, National Insurance, and Pension Fund purposes.

32 Monthly Reconciliations

- 32.1 On a monthly basis, the Council and the SHL will provide summaries and details of:
- Management Fee due to SHL for the month, including VAT;
 - Payments made by the Council on behalf of SHL;
 - Payroll payments made by the Council on behalf of SHL, including PAYE, National Insurance, Pension Fund contributions;
 - SLA charges due to the Council, including VAT
 - Work undertaken by SHL's Building Maintenance DLU for the Council, including VAT;
 - Goods issued from SHL Stores to the Council, including VAT;
 - Any other transactions between SHL and the Council, including VAT, as appropriate.
- 32.1 Input and Output VAT will be clearly identified for both the Council and SHL and each will correctly account for its respective VAT to the Revenue.
- 32.2 These summaries will be reconciled and agreed by the SHL's Director of Resource's and the Council's Chief Finance (Section 151) Officer within a

timetable to be jointly agreed. Any failure to reach agreement will be promptly escalated for resolution.

- 32.3 The monthly balance due to/from SHL to the Council may be charged to the credit or debit of the SHL bank account operated by the Council on behalf of SHL, as appropriate.

33 Closure of Accounts

- 33.1 SHL will ensure that annual accounts will be prepared to a timetable aligned to the Council's closedown procedures and timetable. SHL will provide the relevant financial information to the Council for incorporation in the Council's accounts as appropriate.
- 33.2 SHL will produce Limited Company Annual Accounts and Returns in accordance with the relevant company laws and Statements of Accounting Practices.
- 33.3 SHL will contribute in accordance with the agreed accounts closure timetable to produce a statement in the statutory HRA format, and in any other format reasonably required by the Council's Chief Financial (Section 151) Officer, to be amalgamated with the Council's statutory HRA Accounts.
- 33.4 SBC and SHL will liaise annual in February to agree the accounts closure timetable and will respectively commit to meeting their obligations and deadlines as stated within the timetable.

34 HRA Balances

- 34.1 Any use of HRA balances shall be agreed between SBC and SHL as part of the financial planning process and reflected in the HRA Business Plan.
- 34.2 SHL will report to SBC, as part of the ongoing monitoring processes, any anticipated variation in estimated HRA Balances. SHL should present proposals as to how such variations will be dealt with i.e. proposals for utilising any forecast savings and proposals for achieving offsetting savings to compensate for potential overspendings.

35 Treatment of SHL Surpluses

- 35.1 SBC expects SHL to utilise any surplus on its own accounts for the best value of the overall HRA Business Plan. Surpluses on SHL own accounts within each financial year may be redeployed by SHL as it sees fit in order to achieve its objectives.
- 35.2 SHL should report its proposed treatment of its Surpluses to SBC as part of the monitoring arrangements. The treatment of SHL's previous surpluses will be reviewed by SBC as part of the annual financial planning processes and negotiation of future levels of the Management Fee.

36 Advances to the ALMO

- 36.1 If necessary, SBC may (subject to its legal powers to do so and subject to obtaining any necessary consent) grant advances to SHL at prevailing rates of interest to overcome any short-term cashflow deficits.

36.2 The decision whether or not to grant an advance shall be at the sole discretion of SBC. In exercising its discretion to grant an advance, SBC shall give reasonable consideration to any request from SHL and will at all times operate within the spirit of mutual advantage.

37 Claims and Returns - General

37.1 SBC and SHL will liaise in the spirit of co-operation to ensure that all relevant claims and returns to Government and other bodies are completed accurately to the appropriate deadlines. A file of all relevant claims ("Claims Control File") will be maintained between SBC and SHL to clarify the specific respective responsibilities of SBC and SHL with regard to the completion of each claim form.

38 Housing Revenue Account Subsidy Claims

38.1 SHL will prepare Housing Subsidy, and other Government Grant claims as required, for certification by the Council's Chief Financial (Section 151) Officer. SHL and the Council will co-operate to ensure that appropriate deadlines are met. The timetable below is indicative of current requirements (although the dates and details of these claims may vary & will be reflected in the "Claims Control File")

▪ First advance submission	31 March
▪ Second advance submission	31 August
▪ Pre audit base data return submission	31 August
▪ Audited base data return submission	31 October
▪ Pre audit final claim submission	30 Sept (Year + 1)
▪ Audited final claim submission	21 January (Year + 2)

38.2 SHL must carry out any reasonable work in relation to the audit of these.

39 Value For Money & Efficiency – Annual Efficiency Statements

39.1 SHL will, as part of the financial planning process, provide to the Council each year an Annual Efficiency Statement setting out efficiency gains and targets across SHL budgets and Managed budgets.

39.2 The Council will prepare and submit its Annual Efficiency Statements for the Housing Revenue Account incorporating SHL's submissions.

39.3 These Annual Efficiency Statements will include both forward and backward looking components.

40 Employment tribunals

40.1 The Council indemnifies SHL against the cost of the above in relation to cases that were instigated before 1st October 2006.

41 Dispute resolution

41.1 Disputes shall be resolved as set out in Section 67 of the management agreement.

Annex 2 – Financial Planning Processes & Timetable.

Standard Financial Year:

Date *	SBC Process	SHL Responsibility / Requirement
March	Review & update of SBC Corporate Business Strategy Production of SBC Service Plans. SBC Audit Committee: <ul style="list-style-type: none"> • SBC Annual Internal Audit Plan • SBC Audit Commission Annual Plan 	SBC to liaise with SHL in the production of the updated SBC Corporate Business Strategy. HRA Business Plan to be reviewed by SHL and update to be presented to SBC, for approval. SBC will liaise with SHL to the extent that these matters relate to SHL and / or the HRA and may request that SHL be represented at the Committee.
April		
May	Reporting of Annual Efficiency Statements	SHL to provide information in accordance with paragraph 39
June	SBC Audit Committee: <ul style="list-style-type: none"> • SBC Annual External Audit & Inspection Letter • SBC Annual Internal Audit Report Statement of Accounts Committee	SBC will liaise with SHL to the extent that these matters relate to SHL and / or the HRA and may request that SHL be represented at the Committee. SHL will provide information as referred to in paragraph 33 and in accordance with the Annual Closure of Accounts Timetable. SHL may be requested to send a representative to the Committee.
July	SBC Financial Strategies <ul style="list-style-type: none"> • General Fund • HRA 	SBC will liaise with SHL with regard to any impacts that may affect the HRA. HRA Business Plan to be reviewed by SHL and update to be presented to SBC.
August		
September	SBC Audit Committee: <ul style="list-style-type: none"> • SBC Audit Commission SAS 610 Report. • SBC Review of Financial Regulations & Contract Standing Orders. 	SBC will liaise with SHL with regard to any impacts that may affect SHL or the HRA. SBC will liaise with SHL with regard to proposed changes to SBC Financial Regulations & Contract Standing Orders and will invite SHL to review its own company-adopted procedures.
October	SBC Budget Monitoring (mid year update): <ul style="list-style-type: none"> • General Fund • HRA 	SBC will liaise with SHL with regard to any impacts that may affect the HRA. HRA Business Plan to be reviewed by SHL and update to be presented to SBC, incorporating a current year mid year monitor.
November	Financial Forward Planning Process and Savings Exercise Revenue & Capital report to SBC Executive. Renegotiation of SHL Management Fee & SBC Service Level Agreements SBC Updated Capital Strategy Report to SBC Executive. Draft Housing Subsidy determinations received from Government	SHL to formulate Financial Forward Planning Growth and Savings proposals for approval by SBC and incorporation into the Budget and Business Planning processes. SHL to propose revised Management Fee. SBC to propose revised SLA's. SBC and SHL to liaise, negotiate and agree. SBC to liaise with SHL in the update to the SBC Capital Strategy, taking into consideration Housing, HRA (Decent Homes) and SHL Capital requirements. SHL will review the draft Housing Subsidy Determinations, assess their impact on the HRA and report to SBC.

Appendix E

Date *	SBC Process	SHL Responsibility / Requirement
December	<p>Draft HRA Budget & Rent Setting Proposals report to SBC Executive.</p> <p>SBC HRA Budget Scrutiny Process. SBC HRA Budget Tenant Consultation (Fosta).</p> <p>Final Housing Subsidy determinations received from Government</p>	<p>SHL will prepare a draft HRA Budget for the Managed, Managed/retained budgets & incorporating the proposed Management Fee. The draft will incorporate the draft Subsidy determinations, approved Forward Plan and Savings proposals and Rent Setting proposals.</p> <p>SHL will liaise with SBC to support the Scrutiny and consultation processes for the proposed HRA Draft Budget.</p> <p>SHL will review the Final Housing Subsidy Determinations, assess the changes from the drafts & their impact on the HRA and report to SBC.</p>
January	<p>Final HRA Budget & Rent Setting Proposals report to SBC Executive.</p> <p>Final HRA Budget & Rent Setting Proposals report to SBC Full Council.</p> <p>SBC Audit Committee</p>	<p>SHL will prepare a Final HRA Budget for the Managed, Managed/retained budgets & incorporating the agreed Management Fee. The Final Budget will incorporate the Final HRA Subsidy determinations and Rent Setting proposals, taking into consideration the Scrutiny and Consultation exercises.</p> <p>SHL to support the presentation of the HRA Budget and Rent Setting Report to SBC Full Council. HRA Business Plan to be reviewed by SHL and update to be presented to SBC incorporating latest approved budget.</p> <p>SBC will liaise with SHL regarding any HRA related audit issues.</p>

** Most dates are linked to the SBC Annual Municipal Calendar, which will be consulted upon & issued annually in May of each year.*